

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

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Bill Number: SB 17X

Related Bills: See Prior Analysis

Telephone: 845-3627

Amended Date: May 3, 2001

Attorney: Patrick Kusiak

Sponsor: \_\_\_\_\_

**SUBJECT:** Solar Energy Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended March 27, 2001.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 27, 2001, STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would allow a credit for the purchase and installation of a solar energy system.

## SUMMARY OF AMENDMENTS

The May 3, 2001, amendments:

- Revised the calculation of the credit to be an amount equal to the lesser of 50% of the costs for the purchase and installation of any solar energy system in this state, or the applicable dollar amount per rated watt of that solar energy system.
- Deleted the term "applicable percentage" and added the term "applicable dollar amount." "Applicable dollar amount" would mean \$2.50 for taxable years beginning on or after January 1, 2001, and before January 1, 2004, and \$1.25 for any taxable year beginning on or after January 1, 2004, and before January 1, 2006.
- Prohibit any taxpayer engaged in any type of utility business, as described in the North American Industry Classification System (NAICS) Manual, from claiming the credit.
- Prohibit any taxpayer who receives a grant, subsidy, credit, or other incentive from a municipal utility, or from any local, state, or federal government agency, for the purchase and installation of a solar energy system from claiming the credit.
- Restored the solar energy system requirement of a minimum peak generating capacity of at least 10 kilowatts.

Board Position:

|                  |                   |                      |
|------------------|-------------------|----------------------|
| <u>      </u> S  | <u>      </u> NA  | <u>      </u> NP     |
| <u>      </u> SA | <u>      </u> O   | <u>      </u> NAR    |
| <u>      </u> N  | <u>      </u> OUA | <u>  X  </u> PENDING |

Legislative Director

Date

Brian Putler

05/30/01

- Eliminated reference to the PV USA Test Conditions (PTC) procedure as the basis for determining the rated watt capacity of a solar energy system.

The April 17, 2001, amendments made the following changes:

- Deleted the solar energy system requirement of a minimum peak generating capacity of 10 kilowatts.
- Limited the credit to apply to one solar energy system for each separate legal parcel of property or per each address of the taxpayer in the state.
- Required the solar energy system to be used to produce electricity to claim the credit.
- Specified that no other credit could be claimed for costs associated with the solar energy credit.
- Added recapture provisions.
- Excluded taxpayers that received a grant from the State Energy Resources Conservation and Development Commission for the purchase and installation of a solar energy system from claiming the credit.

As a result of the May 3, 2001, and April 17, 2001, amendments, a number of the implementation considerations in the department's analysis of the bill as amended March 27, 2001, have been resolved. New implementation considerations and the remaining implementation considerations along with a revised revenue estimate are included below. The remainder of the department's analysis of the bill as amended March 27, 2001, still applies.

## **POSITION**

Pending.

## **IMPLEMENTATION CONCERNS**

This bill would require the department, in consultation with the State Energy Resources Conservation and Development Commission, to make a certain determination. However, it is unclear whether the department would be determining the credit amount or the rated wattage of the solar energy system. The need for the department to make a determination regarding the amount of the credit is not apparent since the taxpayer would be able to calculate its credit amount under either alternative (50 percent of costs, or \$2.50 per watt). The department does not possess expertise regarding the rated watt capacity of solar energy systems. In addition, no reference standard is provided to establish the basis for making such a determination. The method of calculating the credit needs to be clarified to eliminate any confusion that may occur between the taxpayer and the department.

This bill would require that the solar energy system be "primarily used to meet the taxpayer's own energy needs." The concept of "primarily used to meet the taxpayer's own energy needs" is undefined. Without definitions it would be difficult to determine whether a particular solar energy system complies with this requirement.

The terms "photovoltaic" and "wind-driven" are not defined.

A large number of taxpayers lease certain items of property rather than purchase them. As drafted, the bill would not apply to a taxpayer that leases, under a true or operating lease, a "solar energy system" for use in this state.

This bill would state that no other credit and no deduction **may** be allowed for any costs for which the credit is taken. The author may wish to affirm that no other credit and no deduction would be allowed by using the term “shall” rather than “may.”

## ECONOMIC IMPACT

### Revenue Estimate

Based on the discussion below, the revenue loss from this bill is as follows:

| Impact of SBX 17 Amended May 3, 2001<br>For Taxable Years Beginning 1/1/2001<br>Assumed Enactment After 6/30/01<br>Fiscal Year Impact<br>(In Millions) |        |        |
|--|--------|--------|
| 2001-2   | 2002-3 | 2003-4 |
| -\$3   | -\$5   | -\$5   |

The tax credit estimates above interact with rebate programs and assume adequate funding of the latter.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

### Revenue Discussion

The impact of this bill would depend upon the number of individuals and businesses incurring qualifying solar energy expenses and the average credit applied against tax liabilities.

Based on information obtained from the California Energy Commission (CEC) and the California Public Utilities Commission (PUC), qualifying systems for their special rebate programs must be located within the electric utility service area of specific electric service providers and remain connected to the utility grid. For this estimate, assumptions were made that virtually all qualifying systems both photovoltaic and wind-driven qualifying for both the tax credit and the special rebate programs offered by the CEC and the PUC would file for the rebates as opposed to claiming the tax credit. This assumption is primarily based on the credit limitations and the timing of the benefit. For example, if a taxpayer files for the special rebates offered, which on average are equal to or greater than the tax credit, the taxpayer would receive full payment and would still be able to take advantage of the federal tax credit. Under the state tax credit a taxpayer would not be allowed to claim the federal tax credit, receive any special subsidy, and many would not receive the full tax benefit in the year of the credit due to limited tax liabilities. Also, because the state tax credit would reduce the taxpayer's state tax liability, and because state taxes paid are a deduction on federal tax returns, the benefit of the tax credit vis-à-vis a rebate would be further diluted.

It was further assumed that virtually all of the wind-driven systems would be connected to the grid, therefore qualifying for any special rebate program.

For this analysis assumptions were made that approximately 10% of qualifying systems meeting the capacity requirements of this bill would file for the tax credit, of which the majority currently would not qualify for special rebate programs. Projected volumes were based on the California Energy Commission's projected rebate program.

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